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UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

CASE NO: 2:06-cv-1356
(JCM-LRL)

IN RE: HARRAH'S SHAREHOLDER
LITIGATION

**FIRST AMENDED CONSOLIDATED
CLASS ACTION COMPLAINT**

JURY TRIAL DEMANDED

Plaintiffs, by their attorneys, submit this Amended Consolidated Class Action Complaint (the "Complaint") against the defendants named herein.

NATURE OF THE ACTION

1. This is a shareholder class action brought by plaintiffs on behalf of holders of Harrah's Entertainment Group, Inc. ("Harrah's" or the "Company") common stock to enjoin a proposed going-private transaction whereby a group of private equity firms has proposed to cash-out Harrah's shareholders at an unfair and grossly inadequate price, as detailed herein (the "Proposed Transaction").

2. On December 19, 2006 Harrah's publicly announced that it had entered into a definitive agreement with defendants Apollo Management L.P. ("Apollo Management") and Texas Pacific Group ("Texas Pacific") (Apollo Management and Texas Pacific are referred to collectively as the "Private Equity Defendants") whereby the Private Equity Defendants would acquire all of the outstanding shares of the Company. Pursuant to the offer, Harrah's shareholders were to receive \$90.00 in cash for their stock at the closing of the deal, which is expected to take as long as eighteen months.

3. The Individual Defendants have made materially false and misleading statements and have failed to disclose material facts in a proxy solicitation.

4. The consideration offered in the Proposed Transaction is unfair and grossly inadequate, because among other things: the intrinsic value of Harrah's common stock is materially in excess of the amount offered, given the Company's growth and anticipated operating results, net asset value and future profitability; and the Plaintiffs will have to wait as long as eighteen months to receive any payment from the Private Equity Defendants.

5. In breach of their fiduciary responsibilities when transferring corporate control, Defendants have withheld and obscured vital information needed by shareholders to properly assess and consider the Proposed Transaction and the true value of the Company, in breach of their fiduciary responsibilities when transferring corporate control.

JURISDICTION AND VENUE

6. The claims asserted arise under and pursuant to Section 14(a) of the Securities and Exchange Act of 1934 (the "Exchange Act") 15 U.S.C. § 78(n) (a) and SEC Rule 14(a)-9 (17 CFR § 240.14a-9) promulgated thereunder.

7. This Court has jurisdiction over the subject matter of this action pursuant to § 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

8. Venue is proper in this District pursuant to § 27 of the Exchange Act, and 28 U.S.C. § 1391(c). Many of the acts alleged herein, including the dissemination of false and misleading information, occurred in substantial part in this District. In addition, the Company maintains its principal executive offices in this District.

9. In connection with the acts alleged in this complaint, Defendants directly or indirectly used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone conversations and the facilities of the national securities markets.

THE PARTIES

10. Plaintiffs Natalie Gordon, Max Phillips, Lou Ann Murphy, Leonard Shapiro, and Deborah Barnum are and at all relevant times have been owners of Harrah's stock.

11. Defendant Harrah's is a corporation organized and existing under the laws of the state of Delaware, with its headquarters located at One Harrah's Court, Las Vegas, Nevada 89119. With its \$9.3 billion acquisition of Caesars Entertainment, Inc. in 2005, Harrah's became the world's largest gaming-entertainment company. Harrah's owns or manages approximately 39 casinos, casino/hotels, and riverboat casino facilities through a wholly-owned subsidiary, Harrah's Operating Company, Inc., which operates under the Harrah's, Caesars, Showboat, Horseshoe and Rio brand names. Harrah's employs over 85,000 employees and maintains facilities which have an aggregate of approximately 3 million square feet of gaming space and approximately 40,000 hotel rooms. For fiscal year 2005, Harrah's revenues rose to \$7.1 billion, a 56.3% increase over the prior year, while adjusted income from continuing operations grew 50.6%, to \$516.6 million, from \$341.1 million for the prior year. Harrah's common stock is traded on the New York Stock Exchange under the symbol "HET."

12. Defendant Gary W. Loveman ("Loveman") has served as a director of the Company since February 2000, Chief Executive Officer since January 2003, and Chairman of the Board (the "Board") since January 2005. He has been the Company's President since April 2001 and was its Chief Operating Officer from May 1998 through December 2002. He was also a member of the three-executive Office of the President from May 1999 to April 2001 and was Executive Vice President from May 1998 to May 1999. Loveman is also a director of Coach, Inc., a designer and marketer of high quality handbags and women's and men's accessories.

13. Defendant Charles L. Atwood ("Atwood") has served as a director of the Company since July 2005 and Chief Financial Officer since 2001. He was also a Senior Vice President from April 2001 to February 2006 and Treasurer from October 1996 to November 2003. Additionally, he was a Vice President of the Company from October 1996 to April 2001. Atwood also serves as a director of Equity Residential, an owner and operator of multi-family properties.

14. Defendant R. Brad Martin ("Martin") has served as a director of the Company since July 1996. Martin has also served as Chairman of the Board of Saks Incorporated

1 (formerly Proffitt's, Inc.), a retail department store company, since 1989, and served as its Chief
2 Executive Officer until January 2006. He is also a director of First Horizon National
3 Corporation, a banking corporation.

4 15. Defendant Gary G. Michael ("Michael") has served as a director of the Company
5 since November 2001. Michael was Chairman of the Board and Chief Executive Officer of
6 Albertsons, Inc., a grocery supermarket company, from February 1991 to April 2001. He is also
7 a director of Questar, Inc., an energy development company; OfficeMax Inc., a business-to-
8 business and retail distributor of office products; IDACORP, Inc., an energy company; and The
9 Clorox Company, a household products manufacturing company. He is a member of the Audit
10 and Finance Committees of the Board.

11 16. Defendant Stephen F. Bollenbach ("Bollenbach") has served as a director of the
12 Company since 2005. Bollenbach also serves as Co-Chairman of the Board and Chief
13 Executive Officer of Hilton Hotels Corporation, a hotel and hospitality company, since May
14 2004, and was its Chief Executive Officer and President from February 1996 to May 2004. He
15 was also a Director and Chairman of the Board of Caesars Entertainment, Inc. from December
16 1998 until the effective date of its merger with the Company. He is a member of the Audit
17 Committee of the Board.

18 17. Defendant Ralph Horn ("Horn") has served as a director of the Company since
19 July 1995. Horn has also served as Chairman of the Board of First Tennessee National
20 Corporation, a banking corporation, from January 1996 until December 2003; a director of
21 Gaylord Entertainment Company, a hospitality and entertainment company; and Mid-America
22 Apartment Communities, Inc., an umbrella partnership real estate investment trust. He is a
23 member of the Human Resources and Nominating/Corporate Governance Committees of the
24 Board.

25 18. Defendant Boake A. Sells ("Sells") has served as a director of the Company
26 since February 1990. Sells was Chairman of the Board and Chief Executive Officer of Revco
27 D.S., Inc., a retail pharmacy chain, from September 1987 to October 1992 and was President of
28

1 that company from April 1988 to June 1992. He is a member of the Human Resources and
2 Nominating/Corporate Governance Committees of the Board.

3 19. Defendant Barbara T. Alexander ("Alexander") has served as a director of the
4 Company since February 2002. Alexander was also a Senior Advisor for UBS Warburg, an
5 investment banking firm, from October 1999 to January 2004 and a Managing Director of
6 Dillon Read & Co, Inc., an investment banking firm, and successor companies from January
7 1992 until October 1999. UBS is serving as the financial advisers for Harrah's in the Proposed
8 Transaction. Alexander is also a director of Centex Corporation, a building and related
9 services company; Burlington Resources, an independent oil and gas company; and Federal
10 Home Loan Mortgage Corporation, or "Freddie Mac", a stockholder-owned company that
11 supports home ownership and rental housing. Alexander is Chairperson of the Audit
12 Committee and is a member of the Finance Committee.

13 20. Defendant Frank J. Biondi ("Biondi") has served as a director of the Company
14 since May 2002. Biondi is also a Senior Managing Director of WaterView Advisors LLC, a
15 private equity fund specializing in media. He was Chairman and Chief Executive Officer of
16 Universal Studios from April 1996 through November 1998 and President and Chief Executive
17 Officer of Viacom, Inc. from July 1987 through January 1996. He is also a director of The
18 Bank of New York Company, Inc., a financial holding company and provider of banking and
19 financial services; Amgen, Inc., a biotechnology company; Hasbro, Inc., a developer of
20 children's and family leisure time entertainment products; Seagate Technology, a manufacturer
21 of memory devices for computing and consumer electronic devices; and Cablevision Systems
22 Corporation, an entertainment and telecommunications company. He is Chairman of the
23 Human Resources and Nominating/Corporate Governance Committees.

24 21. Defendant Robert G. Miller ("Miller") has served as a director of the Company
25 since May 1999. Miller is also the Chairman of the Board of Rite-Aid, Inc., a retail pharmacy
26 chain, a position he has held since December 1999. He was Chief Executive Officer of that
27 company from December 1999 to July 2003. He was also Vice Chairman and Chief Operating
28 Officer of The Kroger Co., a grocery supermarket company, from May 1999 until December

1 1999; Vice Chairman of the Board and Chief Executive Officer of Fred Meyer, Inc. a grocery
2 supermarket company, from July 1998 to May 1999, and Chairman of the Board and Chief
3 Executive Officer of Fred Meyer, Inc. from 1991 to July 1998. He is also a director of
4 Nordstrom, Inc., a fashion specialty retailer, and a director and Chairman of Wild Oats Markets,
5 Inc., a natural and organic foods retailer. He is a member of the Human Resources and
6 Nominating/Corporate Governance Committees of the Board.

7 22. Defendant Christopher J. Williams ("Williams") has served as a director of the
8 Company since November 2003. Williams has also served as Chairman of the Board and Chief
9 Executive Officer of Williams Capital Group, L.P., an investment bank, since 1994, and
10 Chairman of the Board and Chief Executive Officer of Williams Capital Management, LLC, an
11 investment management firm, since 2002. He is a member of the Audit Committee of the
12 Board.

13 23. Defendants Loveman, Atwood, Martin, Michael, Bollenbach, Horn, Sells,
14 Alexander, Biondi, Miller, and Williams are referred to herein as the "Individual Defendants."

15 24. Defendant Apollo Management is an investment firm with headquarters located
16 at 1301 Avenue of the Americas, New York New York 10019-6033. Apollo, founded in 1990,
17 is among the most active private investment firms in terms of both number of investment
18 transactions completed and aggregate dollars invested. Since its inception, Apollo has invested
19 over \$16 billion in a wide variety of industries both domestically and internationally. The
20 firm's most recent private equity fund, Apollo Investment Fund VI, L.P. has capital
21 commitments of \$10.1 billion.

22 25. Texas Pacific is a private investment partnership that was founded in 1992 and
23 currently has more than \$30 billion of assets under management. Texas Pacific Group, with its
24 headquarters located at 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102, invests in
25 franchises across a range of industries, including technology, industrials, retail/consumer,
26 airlines, media and communications, financial services and healthcare.

BACKGROUND OF THE COMPANY

26. Although the present Company was incorporated on November 2, 1989, the Company's roots date back to 1937, when founder Bill Harrah opened a bingo parlor in Reno, Nevada. Prior to 1989, Harrah's operated under predecessor companies. The Company did not enter Las Vegas, one of the world's largest gaming markets, until the 1980's.

27. In the early 1990's, Harrah's languished, deriving much of its profits from casinos and riverboats outside of Las Vegas, including casinos in Illinois, Indiana, Mississippi and Louisiana. Towards the end of the 1990's, the Company embarked on an acquisition spree culminating in the purchase of Showboat, Inc., (completed in June 1998) for \$519 million, or \$30.75 a share, and the assumption of \$635 million in debt. The all-cash acquisition created a company with annual projected casino revenue of \$2 billion and total revenue (including non-casino operations) of \$2.5 billion, according to Harrah's. The purchase gave Harrah's four additional properties, located in Atlantic City, East Chicago, Indiana, Las Vegas and Sydney, Australia. The Las Vegas and Australia properties acquired from the Showboat were subsequently divested. Thereafter, in 1999 the Company acquired the Rio Hotel & Casino, Inc. ("Rio") on the Vegas Strip, which at the time had more than 2,500 suites and approximately 120,000 square feet of gaming space. Harrah's acquired all of Rio outstanding shares in a one-for-one stock transaction valued at \$525 million and the assumption of Rio's debt. Despite these acquisitions, Harrah's limited Las Vegas presence made Harrah's a smaller player compared with rivals opening lavish new properties like the Venetian and Bellagio casinos.

28. Facing increased competition as a result of a wave of consolidation, which started with the deal between Boyd Gaming Corp. and Coast Casinos Inc., Harrah's embarked on one of its largest and most ambitious acquisitions, that of Caesar's Entertainment, Inc. ("Caesar's"). On June 13, 2005, Harrah's acquired Caesar's, forming the world's largest provider of branded casino entertainment. The deal was lauded by analysts as it provided Harrah's with brand name recognition as well as the higher-end Vegas casinos it needed.

29. On December 23, 2005, Harrah's acquired the Imperial Palace Hotel & Casino in Las Vegas for approximately \$370 million, a 52,000 square-foot casino and 2,640 hotel rooms, occupying an 18.5 acre site on the Las Vegas strip.

30. This aggressive growth strategy is only now starting to yield results. For example, on April 27, 2006, the Company said first-quarter revenues rose 93.3 percent to a record \$2.4 billion from the \$1.2 billion reported in the 2005 first quarter. Property Earnings Before Interest, Taxes, Depreciation and Amortization (Property EBITDA) doubled to a record \$690.1 million from Property EBITDA of \$343.2 million in the year-earlier period. First-quarter Adjusted Earnings Per Share (EPS) from continuing operations rose to a record \$1.02, up 22.9 percent from \$0.83 in the 2005 first quarter. Commenting on these record results, Defendant Loveman stated:

The 2006 first-quarter produced the best operating results in Harrah's history due to continued successful execution of an organic-growth strategy that has enabled us to record same-store sales growth in all but one of the past 34 quarters[.]

In addition, we achieved our projected \$80 million first-year synergy target for the Caesars properties by the end of the first quarter -- three months ahead of schedule -- and expect the first full-year number to exceed \$110 million. We project our second year of Caesars ownership will yield \$180 million of synergies.

31. Moreover, Loveman prominently noted that this "extraordinary first-quarter performance was accomplished despite the loss of properties in Hurricanes Katrina and Rita and during a period in which our Total Rewards customer-loyalty program was not yet fully integrated into all Caesars properties[.]" Loveman continued:

But the tremendous operating momentum we have achieved is not the sole reason we are confident about our future we're even more excited about the extraordinary range of growth opportunities that lie before us, both domestically and abroad. In Atlantic City, we anticipate the new luxury retail shopping complex at Caesars will open in phases beginning this June, and we are forging ahead with a \$550 million expansion at Harrah's. We plan to announce details about the master plan for our center Boardwalk properties in Atlantic City -- where we have more than 20 acres available for additional development -- this summer.

Pending regulatory approval, we expect a smaller version of the Grand Casino in Biloxi, Mississippi, will also begin serving customers this summer while we plan development of a new and larger facility, which will be the Gulf Coast's best casino-entertainment offering . . . Racing begins at Harrah's Chester near Philadelphia in September; pending regulatory approvals, we expect to open the

1 casino there in early 2007. We also plan an expansion of the Horseshoe
2 Hammond property in the Chicago area, and have submitted a proposal for a
large gaming-entertainment complex in Pittsburgh.

3 On the international front, we are moving ahead with plans for our previously
4 announced ventures in Spain, Slovenia and the Bahamas and have submitted our
5 final bid for the multi-billion dollar integrated resort in Singapore. We are also
6 pursuing additional opportunities in other areas throughout the world.

7 Las Vegas offers perhaps the most exciting domestic development opportunity
8 for Harrah's, . . . Not only do we have seven existing facilities here, but we also
9 have more than 100 undeveloped acres around those properties, giving us a much
10 broader footprint in the world's biggest gaming market.

11 Over the past eight years, we have demonstrated our ability to drive customer
12 visitation to multiple Harrah's properties across the wide range of markets we
13 serve, . . . That ability will serve us well in the future as we execute the stages of
14 our master development plan for Las Vegas, which we will unveil this summer,
15 and bodes well for other high-return projects that will introduce the Harrah's
16 brands to a global audience.

17 32. On July 27, 2006, Harrah's reported record second-quarter results, stating that:

- 18 • Revenue reached a record \$2.4 billion, up 67%;
- 19 • Property EBITDA was up 70% to a record \$673 million and
20 operating margins improve in most regions;
- 21 • Adjusted EPS from Continuing Operations of 95 cents was up
22 10% to a quarterly record;
- 23 • The Company realized \$118 million in first-year synergies from
24 Caesars Entertainment acquisition; and
- 25 • Overall operations remain strong.

26 Commenting on these record second-quarter results, Defendant Loveman
27 stressed the strengths of the Company's operations and its positive outlook for the
28 future: "Our healthy, broad-based growth in the second quarter demonstrates that our
overall operations remain strong". Furthermore, Loveman stated: "Our core business –
particularly in Las Vegas and Atlantic City – remains robust, and customer visitation and
spending remains healthy across the country." With respect to future expansion plans,
Loveman stated: "[o]ne of our most significant projects is our master planning for the
Las Vegas Strip . . . While our plans for Las Vegas have yet to be finalized, one thing is

1 certain – we will invest prudently and cost effectively, as we have consistently done in
2 the past.”

3
4 33. According to reports on *Bloomberg* news service on October 2, 2006, Harrah’s
5 has increased its profits in each of the previous 10 quarters, except for the third-quarter last
6 year, when it closed four casinos following Hurricanes Katrina and Rita.

7 34. The Company’s third-quarter results, released after the announcement of the
8 private Equity Defendants’ initial offer, were no exception to this trend. Despite the temporary
9 shutdown of Atlantic City Casinos due to a state budget impasse, the third-quarter report issued
10 on October 25, 2006 showed a continuing pattern of strong performance: revenues rose 11% to
11 a third-quarter record of \$2.5 billion; property EBITDA climbed to a record of \$685 million;
12 adjusted EPS from Continuing Operations reached 94 cents; and same-store sales rose 8%.

13 35. Discussing these strong returns, Loveman noted the Company’s expansion,
14 “During the third quarter, we opened our new 450 room luxury hotel in New Orleans, a new
15 smaller Grand Casino Biloxi hotel & Spa in Mississippi and a 258 room hotel in Metropolis
16 Illinois.”

17 36. Most critical to Harrah’s expansion in the third quarter was its announcement
18 that it had completed assembling land for its Las Vegas master plan (the “Development Plan”).
19 Loveman noted that with the final acquisition of the Barbary Coast property, the Company “will
20 have a total of nearly 350 acres of land encompassing an area between Paris Las Vegas to the
21 South, Harrah’s Las Vegas to the north, Koval Avenue to the east, and Rio to the west. Though
22 the investing community was eagerly awaiting the Company’s announcement of its intentions
23 for the Development Plan, Loveman said only that such an announcement would be
24 forthcoming. In the meantime, the third-quarter report indicated that the Private Equity
25 Defendants had made an initial offer to takeover the company.

26 37. Prior to the announcement of any potential sale of the Company, the trading
27 price of Harrah’s common stock, reached a 52-week high of \$82.33 on May 10, 2006. This
28 peak came after the announcement of the Company’s first-quarter earnings on April 27, 2006,

1 which was followed by another record quarter. Yet, on September 29, 2006 the last trading day
2 before the first offer to buy the Company was announced, Harrah's was trading at only \$66.23.
3 The depressed share price was due in part to several one-time events, including the closing of
4 all New Jersey casinos due to a budget impasse and expenses incurred in a lobbying effort in
5 connection with a new casino in Rhode Island. Also, due to Harrah's failure to announce its
6 intentions with respect to the Development Plan, the market had not taken yet factored in the
7 Company's massive real estate holdings and potential for growth. At the time, several analysts
8 noted that the stock was significantly undervalued.

9 38. On October 2, 2006, *Bloomberg* news service reported that "Harrah's shares are
10 cheap compared with the cash its properties including Caesar's Palace and Harrah's Las Vegas
11 produce," citing analysts such as Steve Ruggiero of CRT Capital Group, LLC.

12 39. As one analyst put it, "Harrah's is a company that had tremendous long-term
13 potential, and it has only begun realizing the value of the assets acquired in last year's merger
14 with Caesars Entertainment. Investors are still anxiously awaiting announcements regarding
15 master plans for the Las Vegas Strip and Atlantic City – two markets which now account for
16 60% of the Company's cash flow. In fact, this morning Harrah's separately announced an
17 agreement to snag 24 acres of land adjacent to Boyd Gaming's Stardust Property on the Strip in
18 exchange for Boyd's Barbary Coast – the key piece of land on the strip that should allow
19 Harrah's to move forward with its plans."

20 40. Likewise, *USA TODAY* reported on October 3, 2006 the comments of Rod
21 Petrick, an analyst at broker Stifel Nicolaus, that "[Harrah's] traded at a relative discount
22 compared to its peer group."

23 41. The Company was poised for growth, but it was also ripe for exploitation by the
24 defendants.

25 **SUBSTANTIVE ALLEGATIONS**

26 **A. The Proposed Transaction and Other Offers**

27
28

1 42. In the fall of 2006, the Private Equity Defendants announced their intentions to
2 make a tender offer for all of the outstanding shares of Harrah's. This offer was timed to cap
3 Harrah's market price at an artificially low level.

4 43. On October 2, 2006, Harrah's issued a press release stating that it had received
5 an offer from the Private Equity Defendants to be taken private. Under the terms of the offer,
6 shareholders of Harrah's would have received \$81 in cash for each share of Harrah's stock
7 owned.

8 44. By carefully timing the issuance of the Proposed Transaction during a downturn
9 in the price of Harrah's stock, Defendants were able to claim that the price represented a
10 premium of approximately 22% over the trading price immediately prior to the announcement.

11 45. In early December 2006, the Company received bids from the Private Equity
12 Defendants and Penn National Gaming, Inc ("Penn National"), a casino operating company.
13 Though the Company issued a press release after receiving the initial bid from the Private
14 Equity Defendants, it refused to confirm that it had received other offers. Despite the
15 Company's attempt to keep the bidding process secret, *The Wall Street Journal* reported on
16 December 18, 2006, that Penn National submitted a bid of \$87.00 per share and raised their bid
17 at least once.

18 46. On December 19, 2006, the Company announced that it had entered into a
19 definitive agreement with the Private Equity Defendants to acquire Harrah's in a deal valued at
20 \$27.8 billion. Pursuant to the agreement shareholders would receive \$90.00 per share in cash.
21 (The agreement is hereafter referred to as the "Proposed Transaction".) Once again, using the
22 artificially low share price as a basis for comparison, the Defendants alleged that the Proposed
23 Transaction represents a 36% premium over the trading price immediately following the
24 announcement of the initial offer. The Company did not comment on the Penn National offers
25 or any other bids. On the date of the announcement, the stock closed at \$82.32 per share.

26 47. The Proposed Transaction differed from the Penn National offer in two key
27 respects.
28

1 48. First, because the Private Equity Defendants have no experience in the gaming
2 industry and no management ready to assume control of the operations of the Company, it was
3 reported that they will likely retain the Company's current managers. As The Wall Street
4 Journal noted on November 29, 2006, "current management, led by Gary Loveman, chairman
5 and chief executive officer, would likely be retained under the Apollo/Texas pacific proposal."

6 49. The article went on to note that management would likely be replaced if the
7 Company were bought by Penn National. As an established casino operating company, Penn
8 National already has an experienced casino operating management team in place.

9 50. Second, on December 20, 2006, *Bloomberg News* reported that the Private
10 Equity Defendants "will have to undergo the extensive casino-licensure process in every
11 jurisdiction where Harrah's operates casinos." As a result of these onerous and time consuming
12 requirements, the Proposed Transaction would not close in the near future. *Bloomberg News*
13 quoted one source as saying that "regulators in states from Nevada to New Jersey will examine
14 the new owners' personal finances to make sure they're not in debt. Officials will scrutinize
15 friends, family and associates to ensure they're free of criminal influence." The article noted
16 that the process could take as long as eighteen months.

17 51. Penn National, however, already operates casinos in a number of these
18 jurisdictions and their owners have already been vetted. As The Wall Street Journal reported on
19 December 15, 2006, Penn National "would likely face an easier time" in the licensure process.

20 52. What this means to shareholders is that in order to receive the \$90.00 per share
21 buyout from the Private Equity Defendants, they will have to retain their shares for an
22 inordinate amount of time, whereas a deal with Penn National would be payable much sooner.

23 53. The Individual Defendants are obligated to explore all alternatives to maximize
24 shareholder value, including the value to shareholders of closing a sale of the company quickly.

25
26 **B. The Terms of the Proposed Transaction are Unfair and the Price is Grossly**
27 **Inadequate**
28

1 54. The intrinsic value of Harrah's common stock is materially in excess of the
2 amount offered for those securities in the Proposed Transaction given the Company's prospects
3 for future growth and earnings.

4 55. Defendants have timed the offer to take advantage of an artificially depressed
5 stock price and a fundamental misunderstanding of true value of Harrah's.

6 56. Moreover, the defendants' timing of the announcement of the Proposed
7 Transaction has placed an artificial lid on the market price of Harrah's stock. For the next
8 twelve to eighteen months the market will not reflect the Company's improving potential.

9 57. The \$90.00 offer represents a paltry 8% premium over the 52-week high. Worse
10 yet, in order to receive the \$90.00 price, shareholders will have to retain their shares until the
11 Proposed Transaction closes in twelve to eighteen months. Due to the extended delay in closing
12 the proposed transaction, the time value of money will eat away at any so-called "premium"
13 payable in the future.

14 58. The stock closed at \$82.32 on the day the Proposed Transaction was announced.
15 That price, determined by a market informed by the Proposed Transaction, is more reflective of
16 the value of the Private Equity Defendants offer and actually represents a \$1.01 discount from
17 the 52-week high of \$83.33.

18 **C. Shareholders Have Been Deprived of the Benefits of the Development Plan**

19 59. The Proposed Transaction stifles the public shareholders' opportunity to
20 participate in Harrah's anticipated master plan for the Las Vegas Strip (the "Development
21 Plan"), the plan for expansion in Atlantic City plan and the benefits of the recently completed
22 Caesar's merger. Harrah's has made its expansion plans clear in recent months, and, indeed,
23 stated on October 2, 2006 that it had acquired the Barbary Coast Hotel and Casino on the Las
24 Vegas Strip from Boyd Gaming Corp. The 24-acre plot is the latest piece of land Harrah's has
25 accumulated in a continuous block of real estate on the Strip's east side, where it already owns
26 350 acres, along with casinos such as Paris, Bally's and the Imperial Palace.

27 60. This land swap is part of the Company's expected redevelopment of the area into
28 a major so-called "meta-resort". Recent trends in the gaming industry have centered on the

1 creation of luxury resort complexes to continue and sustain record setting growth. For example,
2 Harrah's rival MGM Mirage Inc. is in the midst of constructing the \$7-billion City Center resort
3 and casino. Boyd Gaming, another competitor, is set to begin construction on its own complex
4 next year at an estimated cost of \$4 billion. According to the *Los Angeles Times*, on October 3,
5 2006, citing Anthony Curtis, president of LasVegasAdvisor.com, Harrah's has "been
6 strategically purchasing land in this area for years and years ... The Barbary Coast was the final
7 piece of the puzzle for Harrah's. I would be stunned if a change of ownership changes those
8 plans".

9 61. The day before the Board announced its acceptance of the Proposed Transaction,
10 the Wall Street Journal noted that the specifics of "Harrah's plan for Las Vegas [had been]
11 delayed for months," but was due to be announced in the near future. The Development Plan
12 has yet to be reflected on the Company's financial results or in its stock price.

13 62. Moreover, the Company's failure to clarify its intentions with respect to the
14 Development Plan contributed to its artificially low stock price. According to the *Las Vegas*
15 *Review Journal*, on October 3, 2006, Jeffrey Logsdon, managing director of BMO Capital
16 Markets, "Harrah's is trading at the lowest multiples of any of the Big Six operators, which
17 also include Station Casinos, Boyd Gaming Corp., Las Vegas Sands Corp., Wynn Resorts Ltd.
18 and MGM Mirage." Logsdon further added that: "Harrah's probably has one of the higher
19 misunderstanding quotients attached to its stock". Moreover, he indicated that "there's
20 uncertainty about how they'll structure their Las Vegas opportunities and uncertainty over
21 whether they'll be able to break into the Asian marketplace. That depresses the equity value. It
22 doesn't change the value of the company. It's only investor perception."

23 63. Though it was earned at their expense, the public shareholders will be deprived
24 of this opportunity, due to management's decision to withhold its announcement and keep the
25 terms of the Development Plan a secret. Only the Private Equity Defendants will reap the
26 benefits of the Development Plan, which is expected to reshape the landscape of Las Vegas.

27 64. The Proposed Transaction will, for inadequate consideration, deny Plaintiffs and
28 the other members of the Class the opportunity to share proportionately in the future success of

1 the Company and its valuable assets, including the benefits of the full integration of the
2 Caesar's properties, the Las Vegas Development Plan and the Atlantic City expansion.

3 **D. The Proposed Transaction Suffers from Serious Conflicts of Interest.**

4 65. The Company's management has serious conflicts of interest. As noted earlier,
5 Penn National, a casino operator with their own extensive management team, would have no
6 further need for the Company's current management. On December 15, 2006, *The Wall Street*
7 *Journal* reported that in contrast to the Proposed Transaction, "Penn National would likely
8 replace Harrah's current management team including Chairman and Chief Executive Officer
9 Gary Loveman with its own executives."

10 66. Under the proposed transaction, however, it is expected that Loveman will
11 continue as Chairman, CEO and President of the Company. Neither of the Private Equity
12 Defendants have any experience in the gambling industry. Experts have noted that upon
13 consummation of the proposed transaction, it is likely that Harrah's top management would stay
14 with the Company, which is considered efficiently run by Wall Street standards. In fact, Dennis
15 Farrell of Wachovia High Yield Research states: "I think [Harrah's Chairman Gary Loveman] is
16 the linchpin of this whole deal."

17 67. On October 4, 2006, *The New York Post*, citing sources involved in the
18 negotiations, noted that "Loveman expects to be part of an eventual deal, but took careful steps
19 not to make the negotiations appear like a typical management buyout." Loveman's expectation
20 to be part of any deal in what may be a disguised management buyout means he has an
21 irreconcilable conflict of interest.

22 68. In addition to keeping their jobs, management would likely share in the benefits
23 of taking the company private. Management's financial interest in taking the Company private
24 has not been disclosed.

25 69. Nonetheless, management clearly has a motive to ensure that the Private Equity
26 Defendants were able to purchase the Company. In an article entitled "*Fine Line of Selling,*
27 *Selling Out, the Firm*", *The Wall Street Journal* reported on January 30, 2006 that "board
28 members were upset when they realized that Loveman had some discussions and signed a

1 confidentiality agreement with a buyer before the full board knew of their interest . . . In effect,
2 Harrah's board didn't even know it was for sale. Mr. Loveman declined to comment "

3 70. Moreover, Harrah's engaged financial advisers with ties to the Private Equity
4 Defendants, rather than engaging financial advisors who were truly independent. According to
5 press reports, Harrah's has chosen UBS Investment Bank ("UBS") as its adviser for the
6 Proposed Transaction. UBS Investment Bank has acted as merger advisor to Texas Pacific
7 Group in the past. Specifically, UBS acted as the merger adviser for Texas Pacific Group's,
8 November 10, 2003, acquisition of the Kraton Polymers Group of Companies ("Kraton
9 Polymers" or the "Company") for a total enterprise value of \$770 million. UBS cannot be
10 objective as it is unavoidable that it will consider the expectation of future business from the
11 Private Equity Defendants, including Texas Pacific that is far more lucrative than the fee
12 Harrah's is paying for this engagement. The purpose of hiring such bankers with prior
13 relationship with Texas Pacific Group was to safeguard against receiving an unfavorable
14 fairness opinion.

15 71. Additionally, UBS and Leon Black, Apollo Group's co-founder, are investors in
16 The New York City Investment Fund, a private fund established in late 1996, under the auspices
17 of the nonprofit organization, The Partnership for New York City.

18 72. Finally, defendant Alexander, one of Harrah's directors, is a former Senior
19 Advisor to UBS.

20 73. Considering the myriad conflicts of interest and Loveman's obvious breach of
21 his fiduciary duties in signing a confidentiality agreement with the Private Equity Defendants
22 behind the Company's back, it is clear that Plaintiffs will suffer irreparable damage unless the
23 Individual Defendants are enjoined from continuing to breach their fiduciary duties and carrying
24 out the Proposed Transaction.

25 **E. The Proxy Solicitation**

26 74. On December 19, 2006 the Company filed with the SEC a Schedule 14A proxy
27 statement pursuant to Section 14(a) of the Securities and Exchange Act of 1934 in connection
28

1 with the Proposed Transaction marked on page 1 as "Soliciting Material pursuant to 240.14(a)-
2 12." (the "Proxy Solicitation").

3 75. The Proxy Solicitation indicated that it was filed in anticipation of the issuance
4 of a forthcoming Proxy Statement.

5 76. The Proxy Solicitation asserted that if the Proposed Transaction is approved, the
6 composition of the Board of Directors will change. This statement is false and misleading
7 because it gives the impression that by approving the Proposed Transaction, the Individual
8 Defendants are not acting in their own self-interest and are voting themselves out of their
9 positions.

10 77. The Proxy Solicitation described the benefits of the Proposed Transaction and
11 further asserted that the Proposed Transaction "represents a significant premium to
12 shareholders," with a chart indicating that the offer is 36% premium over the value of those
13 shares on the day prior to the announcement of the original offer. This statement is false and
14 misleading because the \$90 price is only a small premium over the stock's 52-week high.

15 78. In addition, the Proxy Solicitation fails to disclose that:

16 (a) the interest of the Individual Defendants in ensuring that the Proposed Transaction is
17 approved and that the Proposed Transaction is in effect a typical management buyout;

18 (b) the Individual Defendants were engaged in self-dealing and not acting in good faith
19 towards the shareholders in approving the Proposed Transaction;

20 (c) unbeknownst to the Company, Loveman had entered into a confidentiality agreement
21 with the Private Equity Defendants concerning the buyout;

22 (d) the Individual Defendants artificially depressed the stock price by withholding the
23 announcement of the Development Plan until the announcement of the Proposed Transaction;

24 (e) the Proposed Transaction was timed to capture the Company's future potential
25 without paying an adequate or fair price for the Company.

26 (f) the Individual Defendants made no effort to seek higher bids for the Company than
27 those offered by the Private Equity Defendants or other efforts to obtain the highest selling price
28 for the shareholders;

(g) the Individual Defendants made no effort to consider alternative offers that would not require as many as eighteen months to close.

CLASS ACTION ALLEGATIONS

79. Plaintiffs bring this action on their own behalf and as a class action on behalf of all holders of Harrah's common stock who are being and will be harmed by defendants' actions described below (the "Class"). Excluded from the Class are defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any defendants.

80. This action is properly maintainable as a class action. The Class is so numerous that joinder of all members is impracticable. As of January 31, 2006, Harrah's had 184,092,919 shares of common stock and outstanding. The actual number of public shareholders of Harrah's will be ascertained through discovery.

81. There are questions of law and fact which are common to the Class and which predominate over questions affecting any individual Class member. The common questions include the following:

(a) whether defendants have breached their fiduciary duties of undivided loyalty, independence or due care with respect to Plaintiffs and the other members of the Class in connection with the Proposed Transaction;

(b) whether the Individual Defendants are engaging in self-dealing in connection with the Proposed Transaction;

(c) whether the Individual Defendants have breached their fiduciary duty to secure and obtain the best price reasonable under the circumstances for the benefit of Plaintiffs and the other members of the Class in connection with the Proposed Transaction;

(d) whether the Individual Defendants are unjustly enriching themselves and other insiders or affiliates of Harrah's;

(e) whether defendants have breached any of their other fiduciary duties to Plaintiffs and the other members of the Class in connection with the Proposed Transaction, including the duties of good faith, diligence, honesty and fair dealing;

1 (f) whether the defendants, in bad faith and for improper motives, have
2 impeded or erected barriers to discourage other offers for the Company or its assets;

3 (g) whether the Proxy Solicitation contained materially omissions or false
4 and/or misleading statements; and

5 (h) whether Plaintiffs and the other members of the Class would suffer
6 irreparable injury were the Proposed Transaction consummated.

7 82. Plaintiffs' claims are typical of the claims of the other members of the Class and
8 Plaintiffs do not have any interests adverse to the Class.

9 83. Plaintiffs are adequate representatives of the Class, have retained competent
10 counsel experienced in litigation of this nature, and will fairly and adequately protect the
11 interests of the Class.

12 84. The prosecution of separate actions by individual members of the Class would
13 create a risk of inconsistent or varying adjudications with respect to individual members of the
14 Class which would establish incompatible standards of conduct for the party opposing the Class.

15 85. Plaintiffs anticipate that there will be no difficulty in the management of this
16 litigation. A class action is superior to other available methods for the fair and efficient
17 adjudication of this controversy.

18 86. Defendants have acted on grounds generally applicable to the Class with respect
19 to the matters complained of herein, thereby making appropriate the relief sought herein with
20 respect to the Class as a whole.

21 **FIRST CAUSE OF ACTION**

22 **On Behalf of Plaintiffs and the Class Against**
23 **the Individual Defendants for Violation of SEC Rule 14a-9**

24 87. Plaintiffs incorporate by reference and reallege each and every allegation
25 contained above, as though fully set forth herein.

26 88. The Proxy Solicitation was a proxy solicitation as defined in 17 C.F.R. §
27 240.14a-(1) (1).
28

1 89. The Proxy Solicitation contains false and misleading information where it asserts
2 that the proposed Transaction “represents a significant premium” to shareholders.

3 90. The Proxy Solicitation falsely and misleadingly states that the Board
4 composition will change following the acquisition, giving the impression that by approving the
5 Proposed Transaction, the Individual Defendants are not acting in their own self-interest and are
6 voting themselves out of their positions.

7 91. In the Proxy Solicitation the Individual Defendants failed to disclose their self-
8 interest in ensuring that the Proposed Transaction is approved and that the Proposed Transaction
9 is in effect “a typical management buyout.”

10 92. In the Proxy Solicitation the Individual Defendants failed to disclose that the
11 Individual Defendants were engaged in self-dealing and not acting in good faith towards the
12 shareholders in approving the Proposed Transaction.

13 93. The Individual Defendants failed to disclose in the Proxy Solicitation that
14 unbeknownst to the Company, Loveman had entered into a confidentiality agreement with the
15 Private Equity Defendants concerning the buyout.

16 94. The Individual Defendants failed to disclose in the Proxy Solicitation their
17 efforts to artificially depress the stock price by withholding the announcement of the
18 Development Plan until the announcement of the Proposed Transaction.

19 95. In the Proxy Solicitation the Individual Defendants failed to disclose that the
20 Proposed Transaction was timed to capture the Company’s future potential without paying an
21 adequate or fair price for the Company.

22 96. In the Proxy Solicitation the Individual Defendants failed to disclose facts
23 concerning their lack of efforts to seek higher bids for the Company than those offered by the
24 Private Equity Defendants or other efforts to obtain the highest selling price for the
25 shareholders.

26 97. The Individual Defendants failed to disclose in the Proxy Solicitation facts
27 concerning their lack of efforts to consider alternative offers that would not require as many as
28 eighteen months to close.

SECOND CAUSE OF ACTION

- 23 -

1 (b) take all appropriate steps to enhance Harrah's value and attractiveness as
2 a merger/acquisition candidate;

3 (c) take all appropriate steps to effectively expose Harrah's to the
4 marketplace in an effort to create an active auction for Harrah's, including but not limited to
5 engaging in serious negotiations with the Private Equity defendants;

6 (d) act independently so that the interests of Harrah's public stockholders will
7 be protected; and

8 (e) adequately ensure that no conflicts of interest exist between the
9 Individual Defendants' own interests and their fiduciary obligation to maximize stockholder
10 value or, if such conflicts exist, to ensure that all conflicts be resolved in the best interests of
11 Harrah's public stockholders.

12 106. Unless enjoined by this Court, the Individual Defendants will continue to breach
13 their fiduciary duties owed to Plaintiffs and the Class, and may consummate the Proposed
14 Transaction which will exclude the Class from its fair share of Harrah's valuable assets and
15 businesses, and/or benefit them in the unfair manner complained of herein, all to the irreparable
16 harm of the Class, as aforesaid.

17 107. The Individual Defendants are engaging in self-dealing, are not acting in good
18 faith toward Plaintiffs and the other members of the Class, and have breached and are breaching
19 their fiduciary duties to the members of the Class.

20 108. As a result of the Defendants' unlawful actions, Plaintiffs and the other members
21 of the Class will be irreparably harmed in that they will not receive their fair portion of the
22 value of Harrah's assets and business and will be prevented from obtaining the real value of
23 their equity ownership of the Company. Unless the Proposed Transaction is enjoined by the
24 Court, the Individual Defendants will continue to breach their fiduciary duties owed to Plaintiffs
25 and the members of the Class; will not engage in arm's-length negotiations on the Proposed
26 Transaction terms; and may consummate the Proposed Transaction, all to the irreparable harm
27 of the members of the Class.

28

109. Plaintiffs and the members of the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can Plaintiffs and the Class be fully protected from the immediate and irreparable injury which defendants' actions threaten to inflict.

THIRD CAUSE OF ACTION

On Behalf of Plaintiffs and the Class Against the Private Equity Defendants for Aiding and Abetting the Individual Defendants' Breach of Fiduciary Duty

110. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

111. The Private Equity Defendants have acted and are acting with knowledge or with reckless disregard that the Individual Defendants are in breach of their fiduciary duties to Harrah's public shareholders and have participated in such breaches of fiduciary duties by the directors of Harrah's.

112. The Private Equity Defendants have aided and abetted the Individual Defendants' wrongdoing alleged herein. The Private Equity Defendants are also active and necessary participants in the Individual Defendants plan to complete the Proposed Transaction on terms that are unfair to Harrah's shareholders, as the Private Equity Defendants seek to pay as little as possible to Harrah's shareholders.

113. Plaintiffs have no adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs demand judgment as follows:

A. Declaring this action to be a proper class action and certifying Plaintiffs as class representatives and Plaintiffs' counsel as class counsel;

B. Preliminarily and permanently enjoining defendants from disenfranchising the Class and effectuating the Proposed Transaction;

C. Declaring that the Individual Defendants have violated SEC Rule 14(a)-9;

D. Declaring that the Individual Defendants have breached their fiduciary duty to Plaintiffs and the Class;

1 E. Declaring that the Private Equity Defendants have aided and abetted the
2 Individual Defendants' breach of fiduciary duty;

3 F. Declaring the Proposed Transaction void and ordering rescission if
4 consummated;

5 G. Requiring defendants to account for all shares, money and other value
6 improperly received from Harrah's;

7 H. Requiring disgorgement and imposing a constructive trust on all property and
8 profits defendants received as a result of their wrongful conduct;

9 I. Awarding damages, including rescissory damages, in favor of Plaintiffs and the
10 Class against all defendants, jointly and severally, together with interest thereon;

11 J. Awarding fees, expenses and costs to Plaintiffs and Plaintiffs' counsel; and

12 K. Granting such other and further relief as the Court deems just and proper.

13
14
15
16 **JURY DEMAND**

17 Plaintiffs demand a trial by jury.

18 Dated: February 2, 2007

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CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of February, 2007, a true and correct copy of the foregoing **FIRST AMENDED CONSOLIDATED CLASS ACTION COMPLAINT** was served on all interested parties via facsimile and E-Service:

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